

QUARTERLY REPORT

LICENSEE: ATLANTIC CITY SHOWBOAT, INC

FOR THE QUARTER ENDED MARCH 31, 2003

**TO THE
CASINO CONTROL COMMISSION
OF THE
STATE OF NEW JERSEY**

TRADING NAME OF LICENSEE: ATLANTIC CITY SHOWBOAT, INC.

BALANCE SHEETS

AS OF MARCH 31, 2003 AND 2002

(UNAUDITED)
(\$ IN THOUSANDS)

LINE (a)	DESCRIPTION (b)	2003 (c)	2002 (d)
	ASSETS		
	Current Assets:		
1	Cash and Cash Equivalents.....	24,622	\$ 29,335
2	Short-Term Investments.....	-	-
	Receivables and Patrons' Checks (Net of Allowance for		
3	Doubtful Accounts - 2003,\$3,947 ; 2002, \$1,169)..... NOTE 3	3,372	3,770
4	Inventories..... NOTE 1	1,605	2,179
5	Prepaid Expenses and Other Current Assets..... NOTE 4	1,603	1,342
6	Total Current Assets.....	31,202	36,626
7	Investments, Advances, and Receivables..... NOTES 5 & 13	1,283,512	978,927
8	Property and Equipment - Gross.....	614,802	535,363
9	Less: Accumulated Depreciation and Amortization.....	(285,520)	(265,596)
10	Property and Equipment - Net.....	329,282	269,767
11	Other Assets.....	1,856	2,173
12	Total Assets.....	\$ 1,645,852	\$ 1,287,493
	LIABILITIES AND EQUITY		
	Current Liabilities:		
13	Accounts Payable.....	11,738	3,944
14	Notes Payable.....	-	-
	Current Portion of Long-Term Debt:		
15	Due to Affiliates.....	-	-
16	Other.....	194	176
17	Income Taxes Payable and Accrued.....	62	-
18	Other Accrued Expenses..... NOTE 6	29,647	32,912
19	Other Current Liabilities.....	346	601
20	Total Current Liabilities.....	41,987	37,633
	Long-Term Debt:		
21	Due to Affiliates..... NOTE 8	715,000	715,000
22	Other.....	535	729
23	Deferred Credits.....	14,447	22,048
24	Other Liabilities..... NOTE 7	836,707	466,194
25	Commitments and Contingencies..... NOTE 14		
26	Total Liabilities.....	1,608,676	1,241,604
27	Stockholders', Partners', or Proprietor's Equity.....	37,176	45,889
28	Total Liabilities and Equity.....	\$ 1,645,852	\$ 1,287,493

The accompanying notes are an integral part of the financial statements.
Valid comparisons cannot be made without using information contained in the Notes.

STATEMENTS OF INCOME

FOR THE THREE MONTHS ENDED MARCH 31, 2003 AND 2002

(UNAUDITED)
(\$ IN THOUSANDS)

LINE (a)	DESCRIPTION (b)	2003 (c)	2002 (d)
	Revenue:		
1	Casino.....	\$ 82,023	\$ 83,125
2	Rooms.....	3,877	3,939
3	Food and Beverage.....	11,279	10,896
4	Other.....	1,331	1,501
5	Total Revenue.....	98,510	99,461
6	Less: Promotional Allowances.....	23,012	21,578
7	Net Revenue.....	75,498	77,883
	Costs and Expenses:		
8	Cost of Goods and Services.....	47,013	44,209
9	Selling, General, and Administrative.....	7,164	9,411
10	Provision for Doubtful Accounts.....	101	332
11	Total Costs and Expenses.....	54,278	53,952
12	Gross Operating Profit.....	21,220	23,931
13	Depreciation and Amortization.....	6,484	7,299
	Charges from Affiliates Other than Interest:		
14	Management Fees.....	-	-
15	Other..... NOTES 2, 9 & 11	4,089	4,091
16	Income (Loss) from Operations.....	10,647	12,541
	Other Income (Expenses):		
17	Interest (Expense) - Affiliates..... NOTE 8	(14,451)	(14,455)
18	Interest (Expense) - External.....	-	-
19	Investment Alternative Tax and Related Income (Expense) - Net.....	(399)	(558)
20	Nonoperating Income (Expense) - Net..... NOTE 11	279	154
21	Total Other Income (Expenses).....	(14,571)	(14,859)
22	Income (Loss) Before Income Taxes and Extraordinary Items.....	(3,924)	(2,318)
23	Provision (Credit) for Income Taxes.....	8,349	(763)
24	Income (Loss) Before Extraordinary Items.....	(12,273)	(1,555)
	Extraordinary Items (Net of Income Taxes -		
25	2002, \$; 2001, \$).....	-	-
26	Net Income (Loss).....	\$ (12,273)	\$ (1,555)

The accompanying notes are an integral part of the financial statements.
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STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

FOR THE TWELVE MONTHS ENDED DECEMBER 31, 2002 AND THE THREE MONTHS ENDED MARCH 31, 2003

(UNAUDITED)
(\$ IN THOUSANDS)

Line	Description	Common Stock		Preferred Stock		Additional Paid-In Capital	(b)	Retained Earnings (Accumulated) (Deficit)	Total Stockholders' Equity (Deficit)
(a)	(b)	Shares (e)	Amount (d)	Shares (e)	Amount (f)				
1	Balance, December 31, 2001.....	1,500	\$ 70,492	-	\$ -	\$ -	\$ -	\$ (23,048)	\$ 47,444
2	Net Income (Loss) -2002.....							2,003	2,003
3	Contribution to Paid-in-Capital.....								
4	Dividends.....								
5	Prior Period Adjustments.....								
6									
7									
8									
9									
10	Balance, December 31,2002.....	1,500	70,492	-	-	-	-	(21,044)	49,448
11	Net Income (Loss) -2003.....							(12,273)	(12,273)
12	Contribution to Paid-in-Capital.....								
13	Dividends.....								
14	Prior Period Adjustments.....								
15	1999 Income Tax Adjustment.....								
16									
17									
18									
19	Balance, March 31, 2003.....	1,500	\$ 70,492	-	\$ -	\$ -	\$ -	(33,317)	\$ 37,176

The accompanying notes are an integral part of the financial statements.
Valid comparisons cannot be made without using information contained in the Notes.

TRADING NAME OF LICENSEE: ATLANTIC CITY SHOWBOAT, INC.

STATEMENTS OF CASH FLOWS

FOR THE THREE MONTHS ENDED MARCH 31, 2003 AND 2002

(UNAUDITED)
(\$ IN THOUSANDS)

LINE (a)	DESCRIPTION (b)	2003 (c)	2002 (d)
1	NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES.....	\$ 20,166	\$ 7,298
	CASH FLOWS FROM INVESTING ACTIVITIES:		
2	Purchase of Short-Term Investment Securities.....		
3	Proceeds from the Sale of Short-Term Investment Securities.....		
4	Cash Outflows for Property and Equipment.....	(19,681)	(9,510)
5	Proceeds from Disposition of Property and Equipment.....	-	-
6	Purchase of Casino Reinvestment Obligations.....	(1,091)	(1,042)
7	Purchase of Other Investments and Loans/Advances made.....		
8	Proceeds from Disposal of Investments and Collection of Advances and Long-Term Receivables.....		
9	Cash Outflows to Acquire Business Entities.....		
10			
11			
12	Net Cash Provided (Used) By Investing Activities.....	(20,772)	(10,552)
	CASH FLOWS FROM FINANCING ACTIVITIES:		
13	Cash Proceeds from Issuance of Short-Term Debt.....		
14	Payments to Settle Short-Term Debt.....	5	(10)
15	Cash Proceeds from Issuance of Long-Term Debt.....		
16	Costs of Issuing Debt.....		
17	Payments to Settle Long-Term Debt.....	(50)	(31)
18	Cash Proceeds from Issuing Stock or Capital Contributions.....		
19	Purchases of Treasury Stock.....		
20	Payments of Dividends or Capital Withdrawals.....	-	-
21			
22			
23	Net Cash Provided (Used) By Financing Activities.....	(45)	(41)
24	Net Increase (Decrease) in Cash and Cash Equivalents.....	(651)	(3,295)
25	Cash and Cash Equivalents at Beginning of Period.....	25,273	32,630
26	Cash and Cash Equivalents at End of Period.....	\$ 24,622	\$ 29,335

	CASH PAID DURING PERIOD FOR:		
27	Interest (Net of Amount Capitalized).....	\$ 18,750	\$ 18,750
28	Income Taxes.....		\$ -

The accompanying notes are an integral part of the financial statements.
Valid comparisons cannot be made without using information contained in the Notes.

STATEMENTS OF CASH FLOWS

FOR THE THREE MONTHS ENDED MARCH 31, 2003 AND 2002

(UNAUDITED)
(\$ IN THOUSANDS)

LINE (a)	DESCRIPTION (b)	2003 (c)	2002 (d)
	NET CASH FLOWS FROM OPERATING ACTIVITIES:		
29	Net Income (Loss).....	\$ (12,273)	\$ (1,555)
	Noncash Items Included in Income and Cash Items Excluded from Income:		
30	Depreciation and Amortization of Property and Equipment.....	6,484	7,299
31	Amortization of Other Assets.....	-	-
32	Amortization of Debt Discount or Premium.....	85	85
33	Deferred Income Taxes - Current.....	-	-
34	Deferred Income Taxes - Noncurrent.....	(1,948)	852
35	(Gain) Loss on Disposition of Property and Equipment.....	-	-
36	(Gain) Loss on Casino Reinvestment Obligations.....	399	558
37	(Gain) Loss from Other Investment Activities.....		
	Net (Increase) Decrease in Receivables and Patrons'		
38	Checks.....	1,322	1,190
39	Net (Increase) Decrease in Inventories.....	255	181
40	Net (Increase) Decrease in Other Current Assets.....	894	1,228
41	Net (Increase) Decrease in Other Assets.....	-	-
42	Net Increase (Decrease) in Accounts Payable.....	(1,684)	(2,141)
	Net Increase (Decrease) in Other Current Liabilities		
43	Excluding Debt.....	(10,307)	(2,664)
	Net Increase (Decrease) in Other Noncurrent Liabilities		
44	Excluding Debt.....	39,421	37,009
45	Net (Increase) Decrease in Invest., Advances, and Receivables.....	(2,482)	(34,744)
46			
47	Net Cash Provided (Used) By Operating Activities.....	\$ 20,166	\$ 7,298

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

	ACQUISITION OF PROPERTY AND EQUIPMENT:		
48	Additions to Property and Equipment.....	\$ 19,681	\$ 9,510
49	Less: Capital Lease Obligations Incurred.....		-
50	Cash Outflows for Property and Equipment.....	\$ 19,681	\$ 9,510
	ACQUISITION OF BUSINESS ENTITIES:		
51	Property and Equipment Acquired.....	\$	\$
52	Goodwill Acquired.....		
	Net Assets Acquired Other than Cash, Goodwill, and		
53	Property and Equipment.....		
54	Long-Term Debt Assumed.....		
55	Issuance of Stock or Capital Invested.....		
56	Cash Outflows to Acquire Business Entities.....	\$	\$
	STOCK ISSUED OR CAPITAL CONTRIBUTIONS:		
57	Total Issuances of Stock or Capital Contributions.....	\$	\$
58	Less: Issuances to Settle Long-Term Debt.....		
59	Consideration in Acquisition of Business Entities.....		
60	Cash Proceeds from Issuing Stock or Capital Contributions.....	\$	\$

The accompanying notes are an integral part of the financial statements.

Valid comparisons cannot be made without using information contained in the Notes.

TRADING NAME OF LICENSEE: ATLANTIC CITY SHOWBOAT

SCHEDULE OF PROMOTIONAL EXPENSES AND ALLOWANCES

(\$ IN THOUSANDS)

FOR THE THREE MONTHS ENDED MARCH 31, 2003

Line (a)	(b)	Promotional Allowances		Promotional Expenses	
		Number of Recipients (c)	Dollar Amount (d)	Number of Recipients (e)	Dollar Amount (f)
1	Rooms	59,597	\$ 3,616		
2	Food	455,706	6,102		
3	Beverage	1,642,265	2,161		
4	Travel	-		1,387	243
5	Bus Program Cash	161,482	2,371		
6	Other Cash Complimentaries	356,003	8,260	-	-
7	Entertainment	2,908	102		
8	Retail & Non-Cash Gifts	-			
9	Parking	193,117	386		
10	Other	1,590	14	4,676	351 *
11	Total	2,872,668	\$ 23,012	6,063	\$ 593

FOR THE THREE MONTHS ENDED MARCH 31, 2003

Line (a)	(b)	Promotional Allowances		Promotional Expenses	
		Number of Recipients (c)	Dollar Amount (d)	Number of Recipients (e)	Dollar Amount (f)
1	Rooms	59,597	\$ 3,616		\$ -
2	Food	455,706	6,102		
3	Beverage	1,642,265	2,161		
4	Travel			1,387	243
5	Bus Program Cash	161,482	2,371		-
6	Other Cash Complimentaries	356,003	8,260	-	-
7	Entertainment	2,908	102		
8	Retail & Non-Cash Gifts				
9	Parking	193,117	386		
10	Other	1,590	14	4,676	351 *
11	Total	2,872,668	23,012	6,063	\$ 593

*Included in the other Promotional Expenses is the cost of Cigarette and Cigar complimentaries in the amount of \$84,000.

*Included in the other Promotional Expenses is the cost of Invited Guest Gifts in the amount of \$67,000.

*Included in the other Promotional Expenses is the cost of Outside Entertainment in the amount of \$49,000.

*No other individual complimentary service or item within the "Other" category exceeds 5% of that column's total.

ATLANTIC CITY SHOWBOAT, INC.
Notes to Financial Statements
(Dollars In Thousands)

(1) **Summary of Significant Accounting Policies**

Nature of Operations

Atlantic City Showboat, Inc. (the Company), is a wholly owned subsidiary of Ocean Showboat, Inc. (OSI), which is a wholly owned subsidiary of Showboat, Inc. (SBO). SBO is a wholly owned subsidiary Harrah's Operating Company, Inc. (HOC), which is a wholly owned subsidiary of Harrah's Entertainment, Inc. and Subsidiaries (HARRAH'S). OSI was incorporated in 1983 and is a holding company with its principal assets being investments in the Company. The Company conducts casino gaming operations and operates full supportive services of hotel, restaurant, bar and convention facilities at the Showboat Hotel and Casino in Atlantic City, New Jersey (Atlantic City Showboat).

On June 1st, 1998, HARRAH'S, a Delaware corporation, purchased SBO and its subsidiaries.

Omission of Disclosures

In accordance with the Financial Reporting guidelines provided by the Casino Control Commission (the "CCC"), the Company has elected not to include certain disclosures, which have not significantly changed since filing the most recent Quarterly Report. Accordingly, the following disclosures have been omitted: Future Lease Obligations and certain Income Tax disclosures.

Revenue Recognition

Casino revenues consist of the net win from gaming activities, which is the difference between gaming wins and losses. Revenues from hotel and other services are recognized at the time the related services are performed.

Promotional Allowances

Gross revenues include the retail value of complimentary food, beverage, theater and hotel services furnished to patrons. The retail value of these promotional allowances is deducted to arrive at net revenues. As more fully disclosed in the paragraph "Recent Accounting Pronouncements" promotional allowances have been expanded to include cash rebates. The estimated cost of providing complimentary services and cash rebates to customers for the three months ended March 31 2003 and 2002, respectively, were as follows:

	<u>2003</u>	<u>2002</u>
Food and Beverage	\$7,157	\$6,669
Rooms	2,344	2,681
Other	474	395
Bus Program Cash	2,371	2,654
Other Cash Complimentaries	<u>8,260</u>	<u>7,474</u>
	<u>\$20,606</u>	<u>\$19,873</u>

Cash and Cash Equivalents

The Company considers all highly liquid investments purchased with a maturity of three months or less, at the time of purchase, to be cash equivalents..

ATLANTIC CITY SHOWBOAT, INC.
Notes to Financial Statements
(Dollars In Thousands)

Inventories

Inventories of provisions and supplies are valued at the lower of cost (weighted average basis) or market.

Financial Instruments

The carrying amount of cash equivalents, receivables and all current liabilities approximates fair value due to their short-term nature. The fair value of a financial instrument is the amount at which the instrument could be exchanged in a current transaction between willing parties. After giving effect to their allowances, the Casino Reinvestment Development Authority (CRDA) bonds and deposits approximately indicate their fair value based upon their below market interest rates. The carrying amount of long-term debt is estimated to approximate its fair value as the stated rates approximate current rates.

Property and Equipment

Property and Equipment is carried at cost. Depreciation including amortization of capitalized leases is computed using the straight-line method. The cost of maintenance and repairs is charged to expense as incurred; significant renewals and betterments are capitalized. Estimated useful lives for Property and Equipment are 5 to 15 years for Land Improvements, 10 to 40 years for buildings and 3 to 10 years for furniture and equipment.

Income Taxes

Deferred tax assets and liabilities represent the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases.

Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect of a change in existing tax rates is recognized as an increase or decrease to the tax provision in the period that includes the enactment date.

The Company is included in the consolidated federal income tax group of HARRAH'S. Accordingly, income taxes are allocated based on the separate return method except that tax benefits available to the Company are recognized when generated by the Company to the extent utilized by the group, including carrybacks.

Deferred Financing Cost

Costs associated with the issuance of debt have been deferred and are being amortized to interest expense over the life of the related indebtedness using the straight-line method that approximates the effective interest method.

Long-lived Assets

The provisions of Statement of Financial Accounting Standards ("SFAS") No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of" requires, among other things, that an entity review its long lived assets and certain related intangibles for

ATLANTIC CITY SHOWBOAT, INC.
Notes to Financial Statements
(Dollars In Thousands)

Long-lived Assets (Cont.)

impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be fully recoverable. The assessment for potential impairment is based primarily on the Company's ability to recover the unamortized balance of its long-lived assets from expected future cash flows from its operations on an undiscounted basis. The Company is not aware of any events or changes in circumstances that indicate that the carrying amount of any asset may be impaired.

Accounting Estimates

The preparation of these financial statements in conformity with generally accepted accounting principals requires the Company to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results may differ from these estimates.

The Company provides an allowance for doubtful accounts arising from casino, hotel and other services, which is based upon a specific review of certain outstanding receivables and historical collection performance. In determining the amount of the allowance, the Company is required to make certain estimates and assumptions and actual results may differ from those assumptions.

(2) Related Party Transactions

The Company is charged a fee from HOC for administrative services (including executive, financial, information technology, legal, marketing, and tax planning and compliance). The Company was charged \$1,479 and \$1,469 for the three months ended March 31 2003 and 2002, respectively, for these services.

As more fully disclosed in Note 5, the Company transfers cash in excess of its operating needs to HARRAH'S on a daily basis. As more fully disclosed in Note 7, services are provided by HARRAH'S and cash is transferred from HARRAH'S to the Company based upon the needs of the Company to fund daily operations. No interest is paid or (earned) on the amount shown as Due To (From) Affiliates in the accompanying statements.

As more fully disclosed in Note 8, the Company has Intercompany Promissory Notes Payable totaling \$715,000.

As more fully disclosed in Note 9, the Company leases land from a subsidiary of SBO.

(3) Receivables

As of March 31, 2003 and 2002, Receivables consisted of the following:

	<u>2003</u>	<u>2002</u>
Casino	\$5,789	\$3,722
Hotel	64	137
Due from CRDA	0	0
Other	<u>1,466</u>	<u>1,080</u>
	7,319	4,939
Less allowance for doubtful accounts	<u>3,947</u>	<u>1,169</u>
	<u>\$3,372</u>	<u>\$3,770</u>

ATLANTIC CITY SHOWBOAT, INC.
Notes to Financial Statements
(Dollars In Thousands)

(4) Prepaid Expenses & Other Current Assets

As of March 31, 2003 and 2002, Prepaid Expenses and Other Current Assets consisted of the following:

	<u>2003</u>	<u>2002</u>
Prepaid Slot License	\$441	\$440
Prepaid Insurance	44	0
Deposits	155	226
Prepaid Advertising	45	0
Other	<u>918</u>	<u>676</u>
	<u>\$1,603</u>	<u>\$1,342</u>

(5) Investments, Advances & Receivables

As of March 31, 2003 and 2002, Investments, Advances and Receivables consisted of the following:

	<u>2003</u>	<u>2002</u>
CRDA Deposits (Note 13)	\$15,812	\$17,653
CRDA Bonds (Note 13)	<u>15,096</u>	<u>10,065</u>
	<u>30,908</u>	<u>27,718</u>
Less: Valuation Allowance on CRDA		
Investments	<u>(9,389)</u>	<u>(8,009)</u>
CRDA Investments, Net	21,519	19,709
Due From Affiliates	<u>1,261,993</u>	<u>959,218</u>
	<u>\$1,283,512</u>	<u>\$978,927</u>

Due From Affiliates consisted of the following:

	<u>2003</u>	<u>2002</u>
HARRAH'S	\$1,261,364	\$957,545
Showboat Operating Company	0	11
Harrah's Atlantic City	262	1,562
Showboat Indiana	14	14
Harrah's Lake Tahoe	23	22
Harrah's Joliet	8	17
Harrah's Ak-Chin	290	0
Harrah's North Kansas City	32	32
Harrah's Harvey's Tahoe	<u>0</u>	<u>15</u>
	<u>\$1,261,993</u>	<u>\$959,218</u>

ATLANTIC CITY SHOWBOAT, INC.
Notes to Financial Statements
(Dollars In Thousands)

(6) Other Accrued Expenses

As of March 31, 2003 and 2002, Other Accrued Expenses consisted of the following:

	<u>2003</u>	<u>2002</u>
Salaries and Wages	\$5,644	\$5,295
Taxes, Other Than Taxes on Income	2,092	2,455
Accrued Advertising and Promotion	2,052	646
Accrued Interest	14,347	17,661
Other	<u>5,512</u>	<u>6,855</u>
	<u>\$29,647</u>	<u>\$32,912</u>

(7) Other Liabilities

As of March 31, 2003 and 2002, Other Liabilities consisted of the following:

	<u>2003</u>	<u>2002</u>
Due to Affiliates, Long-Term	\$836,338	\$465,577
Other	<u>369</u>	<u>617</u>
	<u>\$836,707</u>	<u>\$466,194</u>

Due To Affiliates, Long Term consisted of the following:

	<u>2003</u>	<u>2002</u>
HARRAH'S	\$428,749	\$312,708
SBO	395,135	141,185
Harrah's Las Vegas	6,438	7,990
Harrah's Reno	14	14
Harrah's Tunica	11	11
Harrah's Tahoe	663	0
Rio Las Vegas	83	85
OSI	38	38
Harrah's Atlantic City	4,679	3,018
Showboat Operating Company	<u>528</u>	<u>528</u>
	<u>\$836,338</u>	<u>\$465,577</u>

(8) Long Term Debt, Due to Affiliates

As of March 31, 2003 and 2002 Long-Term Debt, Due to Affiliates consisted of the following:

	<u>2003</u>	<u>2002</u>
9 ¼ % Promissory Note - Due 2008	\$215,000	\$215,000
7 ½ % Promissory Note - Due 2009	<u>500,000</u>	<u>500,000</u>
Total Long Term Debt	<u>\$715,000</u>	<u>\$715,000</u>

ATLANTIC CITY SHOWBOAT, INC.
Notes to Financial Statements
(Dollars In Thousands)

(8) Long Term Debt, Due to Affiliates (Cont.)

On May 18, 1993, SBO issued \$275,000 of 9 1/4% First Mortgage Bonds due 2008 (9 1/4 % Bonds) and subsequently loaned approximately \$215,000 of the proceeds to the Company evidenced by an intercompany promissory note with terms and conditions consistent with those of the 9 1/4% Bonds.

Subsequent to the acquisition of SBO by HARRAH'S on June 1, 1998, HARRAH'S completed tender offers and consent solicitations for SBO's 9 1/4 Bonds.

As a result of the receipt of the requisite consents, HARRAH'S eliminated or modified substantially all of the negative covenants, certain events of default and made other changes to the respective indentures governing the 9 1/4 Bonds. The Company's intercompany promissory note with SBO remained unchanged. On January 15, 1999 the Company entered into a \$500,000 intercompany promissory note with HOC. For value received, the Company promises to pay HOC the principal sum of \$500,000 on

January 15, 2009 and to pay interest thereon at the rate of 7 1/2 % per annum. Payments of interest shall be made semiannually on January 15 and July 15 of each year, commencing July 15, 1999, and shall be calculated on the basis of a 360-day year.

Interest payments related to long-term debt are included in the Amounts Due to Affiliates.

(9) Leases

The Company leases a warehouse under a long-term lease agreement that is capitalized as a capital lease. The Company has the option to purchase the warehouse from January 1, 2006 through March 31, 2006 at an option price of approximately \$1,928.

The Company leases 10 1/2 acres of Boardwalk property in Atlantic City, New Jersey for a term ending in 2082 from an affiliate. Annual rent payments, which are payable monthly, commenced upon opening of the Atlantic City Showboat. The rent is adjusted annually based upon changes in the Consumer Price Index. In April 2002, the annual rent increased \$142 to \$10,107. The Company is responsible for taxes, assessments, insurance and utilities. Rent expense under this lease for the three months ended March 31 2003 and 2002, was \$2,527 and \$2,491 respectively.

(10) Stock Plans

HARRAH'S has various incentive plans under which restricted shares or stock options may be granted to key employees of the Company. Compensation expense of \$83 and \$131 was recognized for the three months ended March 31, 2003 and 2002, respectively.

ATLANTIC CITY SHOWBOAT, INC.
Notes to Financial Statements
(Dollars In Thousands)

(11) Non-operating Income (Expense)

For the three months ended March 31 2003 and 2002, Non-Operating Income (Expense) consisted of the following:

	<u>2003</u>	<u>2002</u>
Interest Income	<u>\$279</u>	<u>\$154</u>
	<u>\$279</u>	<u>\$154</u>

(12) Employee Benefit Plans

The Company maintains a retirement and savings plan for eligible employees who are not covered by a collective bargaining agreement. Under the terms of the plan adopted on July 1, 1999, eligible employees may defer up to 6% of their compensation, as defined, of which 100% of the deferral is matched by the Company. Eligible employees may contribute an additional 10% of their compensation, which will not be matched by the Company. Amounts contributed by the Company vest over a five-year period. The Company contributed \$478 and \$517 to this plan for the three months ended March 31 2003 and 2002, respectively.

The Company's union employees are covered by union-sponsored, collectively bargained, multi-employer pension plans. Contributions are generally determined in accordance with the provisions of negotiated labor contracts and generally are based on the number of hours worked. Contributions to the plans were \$252 and \$210 during the three months ended March 31, 2003 and 2002, respectively.

(13) New Jersey Investment Obligation

The New Jersey Casino Control Act (Act) provides, among other things, for an assessment on a gaming licensee equal to 1.25% of their gross gaming revenues in lieu of an investment alternative tax equal to 2.5% of gross gaming revenues. The Company may satisfy this investment obligation by investing in qualified eligible direct investments, by making qualified contributions or by depositing funds with the CRDA. Funds deposited with the CRDA may be used to purchase bonds designated by the CRDA or, under certain circumstances, may be used to purchase bonds designated by the CRDA in exchange for credits against future CRDA investment obligations. CRDA bonds have terms up to 50 years and bear interest at below market rates.

Deposits with the CRDA bear interest at two-thirds of market rates resulting in a current value lower than cost. As more fully disclosed in Note 5, at March 31, 2003 and 2002, Investments, Advances, and Receivables include \$21,519 and \$19,709 respectively, representing the Company's bond purchases and deposits with the CRDA, net of the valuation allowance. The carrying value of these deposits, net of the valuation allowance, approximates fair value.

ATLANTIC CITY SHOWBOAT, INC.
Notes to Financial Statements
(Dollars In Thousands)

(13) New Jersey Investment Obligation (Cont.)

In December 1999 the CRDA approved a credit exchange agreement between the Company and Harrah's Atlantic City (HAC). The CRDA approved an exchange of \$4,628 of HAC South Jersey Future Obligations from the Company's Atlantic City Housing Current Obligations. The exchange was implemented by the immediate transfer of \$4,628 from the Company's Atlantic City Housing Obligations to HAC. In accordance with the exchange agreement, \$4,628 of HAC South Jersey Future Obligations shall be transferred back to the Company's South Jersey Current Obligations upon payment by HAC of such Obligations received by the CRDA on future Quarterly Payment Dates.

(14) Commitments and Contingencies

Litigation


The Company is a party in various legal proceedings with respect to the conduct of its operations. Although a possible range of loss cannot be estimated, in the opinion of management, settlement or resolution of the proceedings should not have a material adverse impact on the financial position or results of operations of the Company.

License Renewal

During January 2001, the New Jersey Casino Control Commission (the "CCC") renewed the Company's license to operate its casino hotel complex in Atlantic City. A casino license is not transferable, and must be renewed every four years by filing an application which must be acted upon by the CCC no later than 30 days prior to the expiration of the license then in force.

STATEMENT OF CONFORMITY, ACCURACY AND COMPLIANCE

1. I have examined this Quarterly Report.
2. All the information contained in this Quarterly Report has been prepared in conformity with the Casino Control Commission's Quarterly Report Instructions and Uniform Chart of Accounts.
3. To the best of my knowledge and belief, the information contained in this report is accurate.
4. To the best of my knowledge and belief, except for the deficiencies noted below, the licensee submitting this Quarterly Report has remained in compliance with the financial stability regulations contained in N.J.A.C. 19:43-4.2(b)1-5 during the quarter.



Signature - Maureen Adams

Acting Vice President of Finance & Admin.

Title

7745-11

License Number

On Behalf Of:

Atlantic City Showboat, Inc.

Casino Licensee